

FAMILY MUTUAL HEALTH
INSURANCE COMPANY



A Problem

SUBMITTED BY

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BOSTON, MASSACHUSETTS

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1907-1
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PREFACE.

The writer has been occupied for thirty-six years as Director and for twenty-three as President of the Boston Manufacturers Mutual Fire Insurance Company, in the development of scientific methods for the prevention of loss by fire in factories. The success which has been attained in this work and the experience gained has led him to the conviction that, by the adoption of analogous methods, the principle of insurance may be applied to the maintenance of the health and the preservation of the lives of children. If this is true, it opens a very wide field in the application of the principle of insurance as yet unoccupied, in which men of ability may find employment with benefit to themselves in ratio to the benefits conferred upon those whom they serve. It is not proposed to organize the system of Family Health Insurance on the basis of a charity, except so far as men of repute may serve as Directors without payment, as the trustees of savings banks serve, while the executive work of such banks is conducted by well-paid officers.

The writer's attention was first called to this problem when asked a few years since to take part in a hearing before a legislative committee in matters connected with what is called Industrial Insurance, — a system in which vast numbers of people combine very small sums under

the name of premiums, insuring in many cases only for the purpose of providing what they call "a decent burial" for their children.

It is upon the basis of the experience of these Industrial Insurance Companies that the writer proposes to supplement the assurance of "a decent burial" of the dead by making provision also for the decent living and health of the children whose parents may choose to share such benefits.

Before venturing to submit this treatise to the younger men or women who may find a right use for the leisure which many enjoy, the writer has submitted it to one of the most experienced actuaries in the State, and has secured the assurance of his sympathy and interest and the promise of his professional advice and services on very liberal terms, should he be called upon. It may happen that one or more of the great Companies now issuing policies to cover burials may organize a department on the basis of annual payments for Health Insurance, in the manner proposed in this treatise, in which case separate companies might not be required.

I am myself too old and too busy to undertake this work as I would were I ten years younger. I can only commend it to the attention of those who desire to find a true use for their time.

EDWARD ATKINSON.

31 MILK STREET, BOSTON,

January, 1901.

FAMILY MUTUAL HEALTH INSURANCE.

In the year 1876 the first of the what are called Industrial Insurance Companies was organized in the United States. In its first year the amount of insurance

written was	\$400,000
The premiums received	14,495
Losses paid or benefits conferred	1,958
Management expenses (estimated),	10,000

In the year 1897 there were ten companies.

The amount of insurance in force a little short of	\$1,000,000,000
Premiums received	44,000,000
Losses or benefits paid	13,500,000
Management expenses	18,600,000

That is to say, the cost of conducting these Industrial Companies appears to be forty-two (42) per cent. ; the benefit to the members thirty (30) per cent. of their income. These are substantially the figures covering the whole average since 1876.

Up to and including 1897, these companies had collected, mainly from those who are commonly classed as working people of moderate or small incomes, at the rate of ten cents a week, three hundred and seven million dollars

	\$307,000,000
Their losses or benefits conferred had been one hundred and four million dollars,	104,000,000
Their management expenses, one hundred and forty million dollars	140,000,000

From an examination of the published data of the years 1898 and 1899 (in which the expenses are not given) and generalizing from the increase, it is to be assumed that in the year 1900 these companies collected from the community \$60,000,000

Their benefits cost them a fraction more than 18,000,000

Their expenses were not less than 26,000,000

What are the inferences which may be drawn from these huge figures?

First. They disclose the fact, which is also a matter of common observation, that one of the duties which even the poorest people of this country believe that they owe to their children is what they call a "decent funeral," which means a very heavy expense in proportion to their average incomes, and which is one of their principal objects in taking out policies in the Industrial Companies.

Second. These facts prove that this class of people are ready and willing to pay for the service which they desire; they are more ready to pay than to accept alms or charity. Whatever may be the estimate in the minds of others of this obligation or duty to infants, it is yet ingrained in the minds of great masses of people. Their willingness to save at every point, even in some cases to the point of going hungry, in order to meet this duty, is a well-attested fact.

I do not intend to antagonize these companies or to cast any adverse reflections upon them; they have supplied a

want. The problem now presented is how to establish other companies of like kind, under the title of "Family Health Insurance Companies." The problem now submitted is whether or not a very large portion of the excessive expense, which is now so much loss to the members of existing companies, may not be converted into the most substantial benefit to the assured.

A very large proportion of this expense is distributed among the collectors who must of necessity be employed in collecting ten cents a week, more or less, from each member. It is alleged that this collection cannot be made without an enormous proportional expense. These intermediaries or collectors earn their money; nothing can be said against them. But the profit of one generation consists mainly in the saving of what had been wasted by the previous generation. This huge cost of collection is a waste on the part of the members of the Company which might be saved to them, provided a system can be established and such intelligence can be spread among them as will cause them to bring or to remit their own contributions to the main office of the Health Insurance Company, instead of making it necessary to waste nearly half of its receipts in the cost of conducting this work.

Now let it be assumed that a Mutual Health Insurance Company should be organized, in which the members of a given community may co-operate with each other. Let it be assumed that in a given area like Boston and its vicinity, including Lowell, Lawrence, and Fall River, the

contributions to the so-called Industrial Insurance Companies may now be five per cent. of the total receipts, say

Premiums paid	\$3,000,000
Benefits	900,000
Expenditures	1,260,000

According to my own judgment and experience the necessary expense of conducting such a company would not exceed \$260,000, leaving a margin of expense to be saved, \$1,000,000 in a single year, which might be applied to benefits. This sum would, I think, warrant

First. Medical and surgical service, to be supplied to all members as a right, having been paid for by them.

Second. Until hospitals could be built from a part of the reserve of such an insurance company, arrangements in existing hospitals for patients requiring treatment.

Third. The establishment of small dispensaries, widely scattered through the districts mainly occupied by the members of the Company; alternative arrangements with pharmacists of repute in such districts to supply

(a) Remedies prescribed by the physicians and surgeons in the employ of the Company without charge or at cost.

(b) To supply medicines, compounds, and proprietary medicines of repute at the least charge consistent with conducting the work.

(c) To supply information in regard to the noxious qualities or excessive price charged for many of the proprietary medicines commonly called "quack medicines,"

warning people who would be otherwise uninformed of the danger of many of them which contain poisonous ingredients and of the folly of wasting their money on these nostrums when the same ingredients could be had in an ordinary prescription at a fraction of the charge under directions which would make them safe.

Fourth. These dispensaries would all become agencies of the monthly, quarterly or annual contribution of the members, entitling them to the services of the Health Insurance Company.

Fifth. Inspectors might also be appointed to survey the sanitary arrangements of dwellings, the cooking apparatus, and to take supervision of all sanitary appliances and surroundings, requiring landlords to perform their duties to their tenants, dealing with the Board of Health, and calling upon the authorities in power to remove nuisances.

Such might be the right use of very large sums of money now wasted in some of the great cities, but such results could only be attained by slow development. Let any one who takes this matter into consideration reduce the figures which I have given. The readers may put to themselves the question, What could be done on a scale one-tenth of that suggested? What could be done in my immediate district or neighborhood, if 20,000 applicants should contribute each five dollars a year, amounting to one hundred thousand dollars (\$100,000), subject to an expense of ten per cent., or \$10,000, in place of over forty per cent., or over forty thousand dollars expenses? How

much medical, surgical and sanitary service can be supplied to the members of the Health Insurance Company with the \$30,000 saved? The citizens of a small town may put to themselves the question, What could be done by a neighborhood Health Insurance Company with ten thousand dollars (\$10,000) saved, as compared to present methods, and applied in the manner described, under the supervision of volunteers who would do the necessary work of a small neighborhood either without charge or with a small charge for one person employed on the clerical and other beneficent work?

In making this suggestion for beginning this work without compensation to its promoters, I do not intend to suggest the continuance of the work so that it shall bear any suspicion of charity more than that which the trustees of a savings bank give, the executive officers of such banks being well-paid men. The only kind of philanthropy that will stay is that which will pay its executive force a just remuneration, that remuneration rating in proportion to the magnitude of the work accomplished.

Let any one who has been interested in the charities of a given district work out the following problem: Are there in my neighborhood two thousand families now contributing at the rate of ten cents a week, or five dollars a year, to the Industrial system, — contributing in the aggregate ten thousand dollars (\$10,000)? In such event they enjoy benefits to the amount of about three thousand dollars (\$3,000). Their share of the expenses is over four thousand dollars (\$4,000); their contribution

to the reserves of the insurance companies a little under three thousand dollars (\$3,000). The margin of saving and increase of benefit is to be worked out from the four thousand dollars (\$4,000) of expenses. Do these people possess sufficient intelligence to induce them to bring their contributions to a Health Insurance Company at a given point, either weekly, monthly or in one sum? Can the clerical work in such a combination be performed at a cost of a thousand dollars (\$1,000)? In that event three thousand dollars (\$3,000), now wasted in excessive expenditure, will be available to the benefit of the contributors, without impairing the three thousand dollars (\$3,000) already set apart to provide for burials. What can be done with three thousand dollars (\$3,000) in supplying two thousand (2,000) contributors with medical, surgical and sanitary service? Would not one dispensary and a part of the service of one physician suffice to meet the real need of two thousand (2,000) contributors? I know of no data by which an average may be made of the calls of physicians in proportion to the number of families in a given district; neither are there any data to show how much such a community now pays for quack medicines of a useless or noxious kind, but from the enormous expenditures in advertising these nostrums, the average contribution to this waste of energy must be a very large cause of poverty and want among the poorest people, who are imposed upon by the science of lying which has been developed in vending quack medicines.

Sixty million dollars (\$60,000,000) contributed in a single year at an average rate of ten to fifteen cents a week, is the resultant and gives evidence of an immense economic force. The only other example of such a force can be found in the wonderful capacity applied to the prudential affairs of the Catholic Church, similar small contributions finding their concrete expression in the great churches, hospitals and schools of that denomination of Christians. Is it not possible to give such a direction to the huge amount of energy that is measured by sixty million dollars a year as will give to those who exert that energy more than thirty per cent. to their own benefit? Is this visionary? Does not this computation open a field yet unoccupied in the line of insurance development, the insurance of health and of intelligent sanitary renovation of the slums of cities? How much of this sixty million dollars comes out of what we call the slums? How are the evils of the slums to be remedied,—from without or from within? My own slight investigations into the conditions of the slums, when I thought a remedy might be found in putting the owners of dirty tenements, kept in evil conditions under large rents, on trial by newspaper, convinced me that a very large part of the slum population lived under these conditions rather from choice or from ignorance than from necessity. When I found a most filthy tenement house filled with occupants whose earnings were sufficient to have enabled them to live in comfort in some of the unfashionable parts of the Back Bay, I made

up my mind that the mental slum must be cleaned out before the material slums could be renovated.

In this city the foreign population in the most crowded sections are in a very considerable measure representative of the highest standard of thrift to be found in Boston. Does not this huge contribution, made by working people in order to secure benefits for their children, stand for a force which can be rapidly directed and developed to a high standard? It is often said that it is useless to attempt to help those who are unwilling or incapable of helping themselves. That axiom will not apply to this great body of contributors to the Industrial Insurance Companies. These payments indicate their power and their will to help themselves by their ten-cent contributions. All they need is to be taught, led or directed, to the end that, in place of wasting a large part of the forty per cent. expense in the effort to provide benefits for their children, they may apply thirty per cent. of their contribution as they do now to that purpose, and may then apply thirty per cent. more which is now wasted in expense so far as they are concerned, to maintaining the health of their children and to securing wholesome conditions in all their surroundings.

I can conceive of no undertaking which might more fully appeal to young men of position and wealth who have not yet found out how to make a good use of their time, than to enter upon this branch of true philanthropy with the assistance of men who can be named by myself and others, who are fully competent to serve for

suitable compensation as actuaries, to lay out the whole plan and purpose of the undertaking, and to find out what force there is in this suggestion of a Family Health Insurance Company.

From the best information now attainable, estimating the figures of Industrial Insurance for the year 1900, the record of this system developed in twenty-five years is as follows: —

Premiums or payments made to these companies in twenty-five years, a fraction less than .	\$500,000,000
Benefits granted to the members at the rate of 30% . . .	150,000,000
Expenses of conducting the business in excess of 40%, over .	200,000,000

These figures witness the enormous proportion of the expense in conducting the Industrial Insurance Companies. The proportion of expense in conducting an insurance system varies with the motive of the organization. In a strictly mutual insurance company the executive officers are merely the agents of the members. The success of the executive officers and, consequently, their own remuneration depends upon their administering the affairs of the Company at the least possible expense, and to so administer the work that it will be a privilege for any one insuring life, health, or property to be admitted as a member. There is no competition for business, no advertising, no heavy expense in soliciting or collecting. Under these conditions, the expenses of

companies with which I am familiar, working on a very large scale, carrying fire insurance to the amount of over \$1000,000,000 a year, are considerably less than ten per cent. of their annual income from premiums. On the other hand, the rightful object of the stock, fire, and marine underwriters and of the industrial insurance companies is to compete for business and to make out of it all there is in it. If by profuse advertising and by the employment of large numbers of agents or solicitors the profits can be increased, that is a perfectly suitable and legitimate motive. In the industrial companies it is a rightful motive of the managers to secure the largest possible income, and to set aside a very ample reserve in addition to the sum taken from the premiums to pay the very large expenditures.

It follows that, in round figures, the contributions of the members have been applied in about the following proportions:—

Thirty (30) per cent. to their benefit while they remain members.

In excess of forty (40) per cent. to the expenses.

A little under thirty (30) per cent. to the accumulation of reserves. These reserves are greatly to the benefit of those who continue year after year to contribute premiums. But very large numbers of persons join these associations for only short terms, finding themselves unable to pay the premiums. It follows that a Mutual Health Insurance Company should be an absolutely mutual organization. As I have hereafter proposed,

members joining for one year securing all the benefits of that year that they are entitled to, paying their share of that year's expenses at not exceeding ten (10) per cent., paying their share of a contingent fund which ought always to be set apart in moderate measure, say ten (10) per cent., but paying no part toward a big reserve of which, by the lapse of their policies, after one or two years they might be deprived. How this would work is demonstrated on another page.

The question arises, Are the members or contributors to the Industrial Insurance Companies persons of sufficient intelligence to save thirty per cent. of what is now wasted in useless expenditure? If it has cost the contributors two hundred million dollars (\$200,000,000) during the last twenty-five years to secure benefits to the amount of one hundred and fifty million dollars (\$150,000,000), what may be the measure of the benefits in the next twenty-five years if the expense were reduced to fifty million dollars (\$50,000,000) and the remaining one hundred and fifty million dollars (\$150,000,000), previously wasted, were applied to Family Health Insurance, sanitary inspection and other purposes described in this treatise?

If some of the great capitalists now trying to find safe investments for their money were to put up a hundred thousand dollars (\$100,000) as a guarantee capital to start a company on the plan herein suggested, might it not be a perfectly safe investment of their capital, subject to be paid off when the reserve of the insurance company warranted such payment. With that amount of capital

all the necessary business agencies, dispensaries and appliances could be started at once, and preparation for a hospital, if needed, could at once be made.

If I am rightly informed, Dr. Galvin, by whom the Emergency Hospital in Boston (now incorporated as the Wage-Earners Emergency Hospital Association) was established on a charitable basis, had become unable to continue it on that method. I have reason to believe that he has re-established the Emergency Hospital, that it is becoming self-sustaining and that he is getting a margin over, with which he is contemplating the construction of a better hospital. I am not informed about the methods of collecting subscriptions, but believe he has proved that many wage-earners desire to pay for their surgical and hospital service.

It would probably be judicious to organize at the beginning on the basis of annual membership in a Family Health Insurance Company, without creating any vested interest or making any considerable reservations from the contributions of members constituting a large reserve. Assuming again the example of two thousand (2,000) families: are there two thousand families in any neighborhood who would contribute five dollars (\$5) each to entitle them to the burial of their children, to medical, surgical, and sanitary service for one year, — the renewal of their contract for a second or more years being optional both with themselves and with the insurance company? If two thousand families should thus combine through an agency for one year, it would be suitable

to set apart one thousand dollars (\$1,000) for the necessary clerical expenses; one thousand dollars (\$1,000) as a contingent fund to meet emergencies either in that year or in subsequent years if the company continued, but in which reserve no vested rights would be given or attained by the contributors. Three thousand dollars (\$3,000) would, according to the average experience of the industrial companies, more than meet the cost of burials. There would remain five thousand dollars (\$5,000) to be expended for medical, surgical, and sanitary service, which might be deemed ample for the ordinary contingencies of two thousand families, living under the conditions of those who now pay for industrial insurance, — any excess unexpended to be added to the contingent fund, or, in case of need, the contingent fund to be drawn upon to meet unexpected calls. Whether or not an act of incorporation would be needed, in order to try this very simple experiment on a particular neighborhood, is a matter that need not at present be considered.

In conclusion, while it is an axiom that it is useless to try to help those who cannot or will not help themselves, this axiom applies only to individuals, not to great bodies of men and women. Reference is often made to the population of the slums as if they were all in this hopeless class. Now what are slums? They are the congested districts of great cities, in which great masses of people are compelled to live under conditions which make cleanliness, order and the right conduct of life extremely difficult. To one who has not given thought and atten-

tion to these conditions, it often appears as if these were permanent evils, in which great bodies of men and women would always be found. Are they not of recent origin? Do not these people who live in the slums consist mainly of foreign immigrants, landed here without skill or aptitude, disappointed in their hope and expectation, but waiting only to be led to better conditions? If I am right in my limited observations, there is no permanent slum population. There is a constant flowing in but more constant working outward and upward, especially in respect to the children when they have been subjected to the discipline, order and method of the public schools, more important even than what is taught in the schools. How large a part of the contribution to the Industrial Insurance Companies comes from this section of the city known as the slums one may not venture to guess. Whatever the amount may be, is it not evidence of capacity and will on the part of very large numbers even of those who live in the slums to help themselves? If that be admitted, all that is needed is to gain their confidence, give them better methods at less cost by which they may compass not only the decent burial of their children, but health and progress to those who are maintained in life. Are not the slums or congested districts themselves but temporary? Did they not originate in the application of steam power and illuminating gas to arts and industries of necessity concentrated near the points of management and sale? Have not these forces tended to aggregation and to congestion? Are

not the new forces working the reverse?—electricity, rapid transit, the telephone and the telegraph, rendering it unnecessary to concentrate working forces in great numbers in close districts; rather tending to segregation and to establishing industrial centres in the neighborhood of cities, widely apart, and each on a wider area of ground? Under these conditions, may not Health Insurance become an important factor in overcoming the evils of the slums by giving those who have already proved their capacity and their purpose to help themselves such direction as may enable them to double or to even more than double the benefits to which they are entitled.

I can conceive of no more useful occupation for young men of ability, who desire to gain compensation for themselves in due proportion to the service which they may render to the community, or one which offers a wider field as yet wholly unoccupied, than to undertake the organization of a

FAMILY MUTUAL HEALTH INSURANCE COMPANY.

BOSTON, MASS., U. S. A.
January, 1901.

EDWARD ATKINSON.